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April 18, 2019

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-400

Re: Proposed Accounting Standards Update, *Compensation – Stock Compensation (Topic 718) and Revenue From Contracts With Customers (Topic 606): Codification Improvements – Share-Based Consideration Payable to a Customer*

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU), *Compensation – Stock Compensation (Topic 718) and Revenue From Contracts With Customers (Topic 606): Codification Improvements – Share-Based Consideration Payable to a Customer* (the "proposed ASU").

We support the Board's commitment to its ongoing project to improve the *FASB Accounting Standards Codification* and stem any potential unintended diversity in application. Instituting changes that reduce the diversity in practice in the application of ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, and clarify its provisions seems the most practical and efficient way to resolve technical issues related to the ASU's implementation.

We believe that the proposed amendments will reduce cost and complexity while maintaining or improving the usefulness of the information provided to users of financial statements. We agree that share-based consideration payable to a customer should be

File Reference No. 2019-400
April 18, 2019
Page 2

subject to the measurement and classification guidance in Topic 718. However, as noted in Appendixes A and B of this letter, we believe that the proposed ASU leaves open certain questions that the Board should address before issuing a final ASU to ensure consistent application in practice.

Appendix A contains our responses to the proposed ASU's questions for respondents. Appendix B includes other significant comments for the Board's consideration.

We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Sandie Kim at (415) 783-4848.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

File Reference No. 2019-400
April 18, 2019
Page 3

Appendix A
Deloitte & Touche LLP
Responses to Proposed ASU's Questions for Respondents

Question 1: *Do you agree that share-based payment awards issued to customers as consideration payable should be measured at the grant date of the award? If not, why should there be a difference in the measurement date for share-based payment awards issued to customers and nonemployee share-based payment awards, and what other alternatives would be more appropriate?*

We agree that entities should measure equity-classified share-based consideration payable to a customer as of the grant date of the award by applying the measurement guidance in Topic 718. We believe that this measurement methodology aligns with the Board's efforts in ASU 2018-07 to provide increased consistency in the accounting for share-based payment awards on the basis of the form of the consideration. We also believe that it would be less costly and complex for entities to apply the measurement guidance in Topic 718 than to apply the alternative considered by the Board and noted in paragraph BC11 of the Basis for Conclusions of the proposed ASU. Many nonpublic entities issue to customers share-based payment awards that are conditioned on future sales, and we do not believe that the added cost of potentially having multiple measurement dates for such awards improves the usefulness of information provided to financial statement users, particularly when there is a lack of comparability with other share-based payment awards issued to employees or vendors.

However, we do not believe that entities should measure liability-classified share-based consideration payable to a customer as of the grant date because this would be inconsistent with how other liability-classified awards issued to employees or vendors are treated. Subsequent changes in the measurement of liability-classified awards issued to employees or vendors are reflected as an adjustment to employee compensation cost or to the cost of goods or services purchased from nonemployees. We believe that any subsequent changes in the measurement of liability-classified share-based consideration payable to a customer should similarly be an adjustment to revenue.

In addition, many liability-classified share-based payment awards obligate the issuer to settle the award in cash (e.g., cash-settled stock appreciation rights). The proposed ASU's provision requiring post-grant-date changes in the measurement of share-based consideration payable to a customer due to the form of the consideration to be excluded from the transaction price may therefore result in entities' excluding from the transaction price a portion of the cash that they pay to their customers. We believe that any amount of cash paid to a customer resulting from a liability-classified share-based payment award should be treated as a reduction of revenue.

Question 2: *Do you agree that share-based payment awards issued to customers as consideration payable should be classified in accordance with the guidance in Topic 718?*

Yes. We agree that share-based consideration payable to a customer should be classified in accordance with the guidance in Topic 718. This would provide consistency with the

File Reference No. 2019-400
April 18, 2019
Page 4

accounting for other share-based payment awards issued to nonemployees and is less complex and costly than applying the classification guidance contained elsewhere in U.S. GAAP (e.g., Topic 480 and Topic 815). We believe that there are many entities that issue share-based consideration payable to a customer that are conditioned on future sales. Such awards could be accounted for as derivatives under Subtopic 815-40, which we believe would add complexity to the accounting.

Question 3: *Do you agree that the amendments in this proposed Update provide sufficient guidance to account for share-based consideration to a customer?*

We do not agree that the proposed ASU provides sufficient guidance for certain aspects of the accounting for share-based consideration payable to a customer. As discussed in detail in Appendix B, we believe that the final ASU should provide additional clarification in certain areas, primarily related to the treatment of (1) changes in the post-grant-date measurement of liability-classified share-based consideration payable to a customer, (2) the interaction between the principles of Topic 718 and the principles of Topic 606 when entities are accounting for vesting and nonvesting conditions, and (3) the treatment of share-based consideration payable to a lessee and other customers. In the absence of further guidance, we believe that diversity in practice may develop.

Question 4: *Are the transition requirements for the proposed amendments appropriate? If not, what transition approach would be more appropriate and why?*

Yes. We agree that the transition requirements for the proposed amendments are appropriate.

Question 5: *How much time would be necessary to adopt the proposed amendments? Should early adoption be allowed?*

We do not believe that entities will need a significant amount of time to adopt the proposed amendments because the amendments will align the measurement and classification requirements of share-based consideration payable to a customer with the provisions of Topic 718, with which entities are already familiar. We also believe that early adoption should be permitted if entities have adopted ASU 2018-07 given that early adoption will provide for consistent application of ASU 2018-07 in periods before the mandatory effective date of the proposed ASU.

File Reference No. 2019-400
April 18, 2019
Page 5

Appendix B
Deloitte & Touche LLP
Other Significant Comments

Post-Grant-Date Changes in the Measurement of Liability-Classified Awards

Proposed paragraph 606-10-32-25A states that the grant-date measurement of share-based consideration payable to a customer should be included in the transaction price and that post-grant-date changes in the measurement of share-based consideration payable to a customer due to the form of the consideration should be reflected elsewhere in the grantor's income statement.

As discussed in our response to Question 1 in Appendix A, we believe that any subsequent changes in the measurement of liability-classified awards should be an adjustment to the transaction price. If the Board agrees with this suggestion, we believe that proposed paragraph 718-30-30-2 should also be amended to allow nonpublic entities to elect to measure liability-classified share-based consideration payable to a customer at intrinsic value, in a manner consistent with the election available to nonpublic entities in their measurement of all other liability-classified share-based payment awards. Because liability-classified awards issued as consideration payable to a customer are often similar to awards issued to vendors, we believe that this amendment will align with the Board's efforts to provide increased consistency in the accounting for share-based payment awards on the basis of the form of the consideration.

In addition, we believe that the wording of proposed paragraph 606-10-32-25A should be clarified to make clear the Board's intentions regarding *which* post-grant-date measurement changes it is referencing. Specifically, we believe that the wording, which references post-grant-date measurement changes "due to the form of the consideration," may not be well understood in the context of share-based payment awards and thus could potentially lead to unintended diversity in practice. For example, if an entity grants as consideration payable to a customer a cash-settled stock appreciation right, it may not be clear whether the "form" of the consideration is cash used to settle the instrument or the share-based instrument itself. If the form of the consideration is determined to be cash, some might believe that any post-grant-date changes in the award's measurement are due to the value to which the instrument is indexed (i.e., the entity's stock price) rather than to its form (i.e., cash).¹ Therefore, any post-grant-date change in measurement *would* be included in the transaction price because it is not due to the form of the consideration. However, some may view the form of the consideration to be the share-based instrument itself (i.e., the stock appreciation right) rather than the asset in which it is ultimately settled (i.e., cash), in which case the post-grant-date change in measurement *would not* be included in the transaction price because the change is due to the form of the consideration.

¹ Although paragraph 606-10-32-23 on noncash consideration received from a customer provides an example in which a change in the price of a share to which an entity is entitled to receive from a customer is associated with the form of the consideration, this example illustrates the accounting for an underlying share as opposed to a cash-settled instrument indexed to the price of a share.

File Reference No. 2019-400
April 18, 2019
Page 6

Service, Performance, Market, and Other Conditions

Share-based payment awards often include service, performance, market, or other conditions. Proposed paragraph 606-10-32-25 states that if “consideration payable to a customer includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 606-10-32-5 through 32-13.” Therefore, some may conclude that those conditions included in share-based consideration payable to a customer are subject to the guidance on variable consideration in paragraphs 606-10-32-5 through 32-13. Proposed paragraph 606-10-32-25A, however, states that share-based consideration payable to a customer “shall be measured . . . under Topic 718,” and the measurement provisions in subsections 718-10-30 and 718-10-35 include guidance on the treatment of service, performance, and market conditions. Therefore, some may conclude that those conditions are subject to the guidance in subsections 718-10-30 and 718-10-35. Further, some may instead conclude that vesting conditions (which do not affect measurement but do affect recognition pursuant to Topic 718) are subject to the variable consideration guidance in Topic 606 while nonvesting conditions (which affect measurement pursuant to Topic 718) are subject to the guidance in Topic 718.

This lack of clarity may lead to diversity in practice for entities that issue share-based consideration payable to a customer that includes certain conditions as follows:

- *Conditions that affect the vesting of an award* — Under Topic 718, a condition that affects the vesting of an award (i.e., a service or a performance condition that must be satisfied for a grantee to vest in an award) is not directly factored into the fair-value-based measure of the award. However, these conditions that affect the vesting of an award (and thus are not included in the fair-value-based measurement of the award under Topic 718) also create variability in the amount of consideration payable to the customer.
- *Conditions that affect factors other than the vesting of an award* — Under Topic 718, a nonvesting condition (i.e., a market condition; a service or performance condition that affects factors other than vesting or exercisability; or an “other” condition that does not meet the definition of a market, service, or performance condition) affects the fair-value-based measure of an award. However, these conditions also cause variability in the amount of consideration payable to the customer.

Whether an entity calculates the reduction in its transaction price related to share-based consideration payable to a customer that includes the above types of conditions by using the guidance in paragraphs 606-10-32-5 through 32-13 or by using the guidance in Topic 718 could affect the amount measured as a reduction to the transaction price. The following are some potential differences:

- The initial amount calculated under paragraph 606-10-32-8 to estimate variable consideration by using the “expected value” or the “most likely amount” method may differ from the amount calculated under Topic 718. Under Topic 718, (1) the amount

of forfeitures associated with service conditions is either estimated or accounted for when they occur, (2) the amount associated with performance conditions is based on the probable outcome by using only possible outcomes, and (3) the effect of market and other conditions is included in the fair-value-based measure of an award. For example, for an award with a performance condition that affects the quantity of instruments that vest, an entity could determine that the expected value of variable consideration under Topic 606 (which could result in an amount that is probability weighted and not a possible outcome) is different from the probable outcome determined under Topic 718 (which can only be a possible outcome).

- The initial amount calculated under paragraph 606-10-32-11 (i.e., variable consideration for which it is “probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved”) may differ from the amount calculated under ASC 718. For example, for an award with a performance condition that affects vesting, an entity could determine that the fair-value-based measure of the award should not be initially included as a reduction of the transaction price because it is probable that the exclusion of such value would not result in a significant reversal of cumulative revenue recognized (i.e., the value of the award is not “significant” relative to cumulative revenue). Under Topic 718, the fair-value-based measure of the award would initially be included as a reduction of the transaction price if it is probable that the performance condition will be met.
- Under proposed paragraph 606-10-32-25A, it may not be clear whether service, performance, market, or other conditions are associated with the “form of the consideration.” For example, for an equity-classified award with a market condition that affects whether the award is earned, an entity could conclude under Topic 606 that changes in the value of the award due to the market condition are *not* due to the form of the consideration and therefore should be included in the transaction price. Under Topic 718, the market condition would be incorporated in the fair-value-based measure of the award, and because the award is classified as equity, any subsequent changes in the value of the award due to the market condition would not be included in the transaction price.

We recommend that the final ASU require entities to apply Topic 718 to account for all service, performance, market, and other conditions. Attribution (i.e., the period over which the award is recognized) and presentation (i.e., reduction to revenue) of the award would follow the guidance in Topic 606; in line with paragraph 718-10-25-2C, the period(s) or the manner in which an entity recognizes the cost of a share-based payment award issued to a customer would be the same as if the grantor had paid cash instead of paying with a share-based payment award. This would ensure consistency in the accounting for share-based payment awards on the basis of the form of the consideration, whether issued to a customer or a vendor. We believe that our recommendation would also reduce the cost and complexity of accounting for share-based consideration payable to a customer since entities are familiar with applying the guidance in Topic 718 (and would have accounted for all share-based payment awards issued to customers and vendors consistently under Subtopic 505-50 before the adoption of ASU 2018-07). If the Board does not decide to align all the

File Reference No. 2019-400
April 18, 2019
Page 8

guidance for service, performance, market, and other conditions with Topic 718, we recommend that the Board clarify how service, performance, market, and other conditions are accounted for under either Topic 606 or Topic 718.

Share-Based Payment Awards Granted to Lessees and Other Customers

Although the proposed ASU would amend the guidance on consideration payable to a customer within the scope of Topic 606, the proposed amendment to the scope guidance in paragraph 718-10-15-3 does not link the term "consideration payable to a customer" to the guidance in Topic 606. We recommend that the Board clarify whether a "customer" is limited to the Topic 606 definition or should be applied more broadly. For example, we have observed that share-based payment awards have been issued by lessors to lessees as lease incentives and do not believe that the proposed amendments should be limited to awards issued to customers solely within the scope of Topic 606. Therefore, we recommend that the Board amend proposed paragraph 718-10-15-3 or provide clarification in the final ASU's Basis for Conclusions that extends the scope of Topic 718 to consideration payable to a lessee in a contract within the scope Topic 840 or Topic 842, since we do not think that there are sufficient differences between awards granted to lessees and those granted to customers within the scope of Topic 606 to warrant different accounting outcomes.